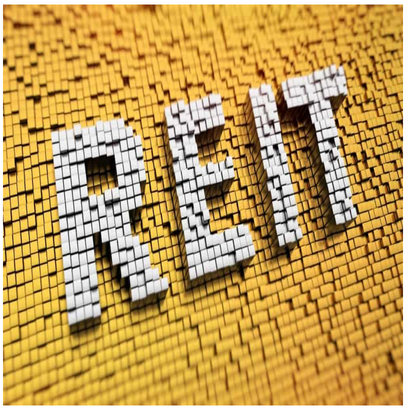


3 Retail REITs: Which Stock Is Best for Income in 2021?

Description

Retail real estate investment trusts (REITs) gave investors a scare last year because of the pandemic. Many retailers had to shut down their stores due to temporary economic lockdowns designed to slow down the spread of the virus.

As a result, the cash flows of retail REITs like **RioCan REIT** (TSX:REI.UN), **SmartCentres REIT** (TSX:SRU.UN), and **Plaza Retail REIT** (TSX:PLZ.UN) were meaningfully impacted.

In response, RioCan had cut its monthly cash distribution by a third from $0.12 to $0.08 per unit this month. It'll likely maintain this cash distribution for some time — at least until the pandemic is over.

Through the pandemic so far, SmartCentres and Plaza Retail have maintained their cash distributions.

Let's explore to see which of the three retail REITs are the best for income in 2021.

RioCan REIT yields almost 5.5%

RioCan is the largest of the three retail REITs. It has an enterprise value of about $12.3 billion and a market cap of about $5.6 billion. The retail REIT already began diversifying away from retail real estate by investing in intensification projects before the pandemic. Unfortunately, in the middle of this multi-year transformation, its business was hit by the pandemic.

As of Q3 2020, it still had about 90% of its portfolio in retail real estate and 8% in office real estate. Both are seen to be somewhat impacted by the pandemic. That's 98% of its portfolio! This resulted in a reduction in its cash flow.

In the trailing 12 months, RioCan paid almost $452.3 million in dividends. Based on its Q3 2020 rent collection, RioCan assessed that about 97% of its gross rent was safe, coming from approximately 61% of strong tenants and 17% of stable tenants.

RioCan's expected 2021 payout ratio is about 61% based on its current annualized payout of $0.96 per unit. Adding that it has about $800 million of liquidity, there shouldn't be a need for RioCan to further cut its cash distribution.

SmartCentres yields 7.6%

SmartCentres has an enterprise value of about $9.4 billion and a market cap of roughly $3.5 billion. Its cash flow was somewhat helped stabilized by the government assistance program that helped small retailers pay rent during the most impacted periods of the pandemic. The program, for which tenants and the landlord each paid 25% of the rents and the government paid 50%, lasted from April to September 2020.

In September, excluding the help from the government-assistant program, SmartCentres collected 89.5% of rents, up from 75.7% in April, suggesting that economic reopenings allowed its retailers to do business, be in a more financially sound state, and pay rent.

SmartCentres' adjusted funds from operations (FFO) payout ratio was just under 89%, which was only about 1.5% higher than in 2019. So, there's a good chance it can maintain its currently high yield of 7.6%, as long as the pandemic doesn't trigger another severe economic lockdown in Canada.

This retail REIT yields nearly 7.8%

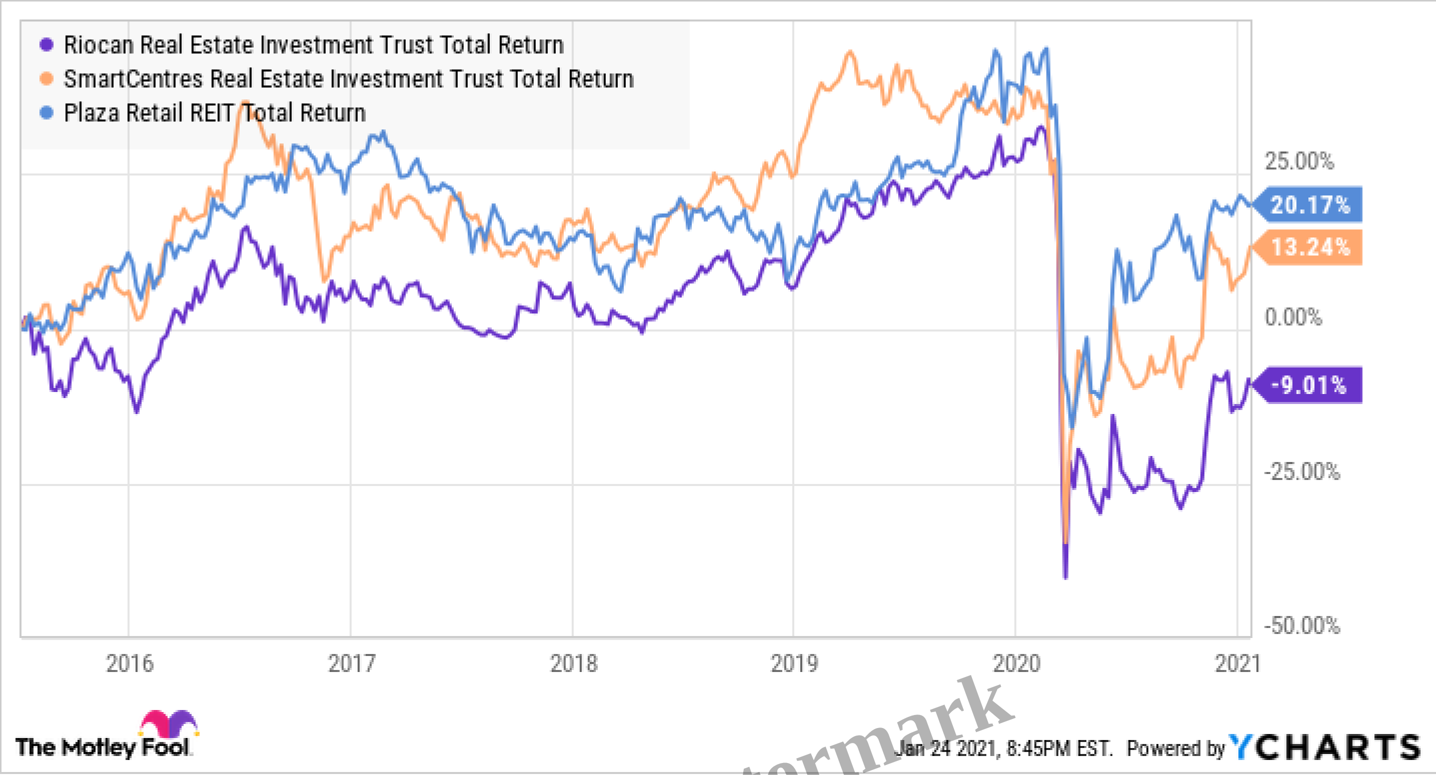
Plaza Retail REIT is the smallest of the bunch with an enterprise value of more than $1 billion. Interestingly, it has the most solid dividend of the group.

Plaza has maintained or increased its dividend every year since 2006. And it doesn't look like its current dividend is in jeopardy either. Its Q3 2020 adjusted FFO payout ratio was just under 86%. During that quarter, it also had excess cash to buy back shares at cheap prices.

The Foolish takeaway

Believe it or not, Plaza Retail REIT seems to be the best bet among the three retail REITs. This shows in its one-, three-, five-, and 10-year returns that outperform the other two.

Here's a chart showing their 10-year total returns.



Total Return Level data by YCharts.

Interested income investors should do further research on Plaza Retail REIT and SmartCentres to see which one is a better fit for their diversified dividend portfolios.

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2. TSX:REI.UN (RioCan Real Estate Investment Trust)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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